

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 NEAE-00 SP-02 USIA-15 AID-05 EB-07

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC PRIORITY 8137

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E.O. 11652 N/A

TAGS: ECON, IR

SUBJECT: CENTRAL BANK OF IRAN'S ECONOMIC ASSESSMENT

REFS: (A) TEHRAN A-99, (B) TEHRAN A-116

1. SUBSEQUENT TO CENTRAL BANK OF IRAN'S (CBI) ANNUAL BOARD MEETING JULY 13, ENGLISH LANGUAGE NEWSPAPERS CARRIED A SUMMARY OF THE CBI'S REPORT, WHICH ITSELF IS A SUMMARY OF THE ANNUAL REPORT NOT YET PUBLISHED IN COMPLETE FORM. IN BOTH THRUST AND QUANTITATIVE CONTENT THESE HIGHLIGHTS ARE GENERALLY CONSISTENT WITH REF A ALTHOUGH THEY REFLECT LATER CBI ESTIMATES. THE FOLLOWING CONVEYS THE MORE SIGNIFICANT ASPECTS OF THE CBI REPORT: A MORE THOROUGH REPORT WITH COMMENT WILL FOLLOW BY AIRGRAM. VALUE EXPRESSIONS ARE IN CONSTANT 2533 VALUES UNLESS INDICATED.

2. ECONOMIC GROWTH FOR YEAR 2534 (ENDED MARCH 20, 1976) WAS REPORTED BY VARIOUS METHODOLOGIES AS WELL AS, FOR THE FIRST TIME, BY SEPARATION OF THE NON-OIL SECTOR FROM OIL WHICH IS SUBJECT TO EXOGENOUS FACTORS. IN CURRENT PRICES NATIONAL INCOME WAS CALCULATED AT RIALS (RLS) 3615 BILLION (AT RLS 68 AVERAGE 2534 TO DOLLAR, \$53.2 BILLION) AND PER CAPITA OF RLS 109,000 OR \$1600.

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THE GNP NON-OIL SECTOR GROWTH IN CONSTANT PRICES INCREASED 17.7

PERCENT (RLS 2234 BILLION) VERSUS 15.5 AND 16.8 PERCENT IN THE PREVIOUS TWO YEARS. ADDED VALUE IN THE OIL SECTOR DECLINED BY 11.1 PERCENT (VERSUS PLUS 1.1 PERCENT IN 2533), REDUCING THE SECTOR'S SHARE OF GDP FROM 45 TO 38 PERCENT. BY SECTOR, INDUSTRY AND MINES WAS UP 21 PERCENT (11 PERCENT OF TOTAL NON-OIL GNP VERSUS 10 PERCENT IN 2533), AGRICULTURE UP 7 PERCENT (10 PERCENT OF GNP), SERVICES UP 19 PERCENT TO 33 PERCENT OF GNP AND CONSTRUCTION UP 37 PERCENT TO 17.8 PERCENT OF GNP. INCLUDING OIL, THE REAL GDP GROWTH WAS FIVE (TL PERCENT AND GNP 2.7 PERCENT (VERSUS 41.6 IN 2533). WITH REFERENCE TO TERMS OF TRADE, THE OIL PRICE WAS SAID TO INCREASE 6.3 PERCENT, WHICH WITH IMPORTS UP 16 PERCENT PRODUCED A NEGATIVE TERMS OF TRADE OF RLS 47 BILLION AND A NATIONAL INCOME INCREASE OF 2.1 PERCENT. WITHIN TOTAL SUPPLY, THAT FROM DOMESTIC PRODUCTION INCREASED BY 18 PERCENT (17.9 IN 2533) AND FROM IMPORTS 55.5 PERCENT (22.9 IN 2533), INCREASING THE SHARE OF TOTAL SUPPLY BY IMPORTS FROM 21 TO 26 PERCENT. ON THE EXPENDITURE ACCOUNT, CONSUMPTION EXPENDITURES INCREASED 14 PERCENT (25 IN 2533). GROSS CAPITAL FORMATION WAS UP 64 PERCENT (23.5 IN 2533) WITH PLANT AND EQUIPMENT UP 83 PERCENT AND CONSTRUCTION 52 PERCENT. FIXED INVESTMENT BY THE PRIVATE SECTOR INCREASED 2.1 TIMES.

3. MONETARY/PRICE POLICY REPORTEDLY SOUGHT A SLOWDOWN OF LIQUIDITY GROWTH AND INFLATION. AS REPORTED IN REF A, THE CONSUMER PRICE INDEX MOVED UP 5 PERCENT POINT TO POINT AND 9.9 PERCENT AVERAGE FOR THE YEAR VERSUS 15.5 PERCENT IN 2533. THE WHOLESALE PRICE INDEX INCREASED AN AVERAGE 3.9 PERCENT. WAGES AND BENEFITS PAID INDUSTRIAL AND CONSTRUCTION WORKERS INCREASED 35 AND 48 PERCENT RESPECTIVELY IN 2534. LIQUIDITY INCREASED BY 36.6 PERCENT (M1) VERSUS 61 PERCENT IN 2533. WHEREAS PRIVATE SECTOR LIQUIDITY INCREASED 41 PERCENT IN 2534, IT WILL BE LIMITED TO 25 PERCENT THIS YEAR. THE ASSETS AND LIABILITIES OF THE BANKING SYSTEM INCREASED BY 31 PERCENT, ASSETS 10 PERCENT. CREDITS TO THE PRIVATE SECTOR EXPANDED BY 54 PERCENT.

4. FISCAL PERFORMANCE (CURRENT VALUES) INCLUDED THE ACHIEVEMENT OF A TECHNICAL AND BUDGETARY SURPLUS OF RLS 132 BILLION WHICH "WITH 190 BILLION RIALS FROM OTHER SOURCES PERMITTED AN INVESTMENT OF 167.5 BILLION (\$2.5 BN) ABROAD." THE GOVERNMENT'S RELIANCE ON OIL FOR INCOME DIMINISHED FROM 86 TO 70 PERCENT.  
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CURRENT EXPENDITURES INCREASED 27 PERCENT; THOSE RELATED TO DEVELOPMENT (CAPITAL) BY 51 PERCENT. THE CURRENT BUDGET (2535) COMPOSITION IS 62 PERCENT CURRENT AND 38 CAPITAL EXPENDITURES.

5. EXTERNAL ACCOUNTS: FOREIGN EXCHANGE RESERVES AT THE END OF 2534 WERE \$6 BILLION AS AGAINST \$7.2 BILLION A YEAR EARLIER (MARCH 20, 1975). THE OVERALL DEFICIT OF ABOUT \$1 BILLION COMPARES WITH A SURPLUS OF \$5.1 BILLION THE YEAR BEFORE. IMPORTS

ON A CUSTOMS-CLEARED CIF BASIS WERE \$11.3 BILLION IN VALUE AND 13 MILLION TONS, UP 70 AND 42 PERCENT RESPECTIVELY. OF THIS, 54 PER-CENT CONSTITUTED INTERMEDIARY GOODS, 29 PERCENT CAPITAL GOODS AND 17 PERCENT CONSUMER. (COMMENT: THESE ARE NON-MILITARY IMPORTS.) THE CURRENT ACCOUNT SURPLUS ON THE FOREIGN EXCHANGE BALANCE OF PAYMENTS FELL FROM \$8.5 BILLION IN 2533 TO \$2.8 BILLION DUE TO A 4 PERCENT INCREASE IN RECEIPTS (TO \$21.8 BILLION) IN THE FACE OF A 53 PERCENT INCREASE IN CURRENT PAYMENTS. WITH THE CAPITAL ACCOUNT IN DEFICIT BY \$3.5 BILLION (\$3.2 BILLION IN 2533) AND NEGATIVE ERRORS AND OMISSIONS, THE OVERALL DEFICIT WAS ABOUT ONE BILLION DOLLARS. (NOTE: THE OVERALL DEFICIT REPORTED IN REF A WAS \$665 MILLION; THE RECENTLY REVISED FIGURE OF \$991 MILLION DEFICIT WILL BE REPORTED IN A BALANCE OF PAYMENTS AIRGRAM.)

6. BY WAY OF COMMENTARY, CBI GOVERNOR MEHRAN CALLED FOR BALANCED SECTOR GROWTH, CLOSE COORDINATION OF WAGE RISES AND PRODUCTIVITY AND AN INCOMES POLICY. HE NOTED WITH SATISFACTION THAT CAPITAL FORMATION IS RISING, THE RATE OF CONSUMPTION GROWTH IS DECLINING, AND THAT INFLATION HAS BEEN CHECKED BY GOVERNMENT PRICE CONTROLS DESPITE CONTINUED PRESSURE ON PRICES BY INFRASTRUCTURE AND MAN-POWER BOTTLENECKS. ALSO COMMENDED WAS THE TREND AWAY FROM DEPENDENCE ON OIL, A FACTOR BASIC IN THE EMPHASIS GIVEN THE 17.7 PERCENT REAL GROWTH BY THE NON-OIL SECTOR.

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